

VILLAGE OF FIFE LAKE
DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)
VILLAGE OF FIFE LAKE, MICHIGAN

FEBRUARY 29, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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(A Component Unit of Village of Fife Lake)
VILLAGE OF FIFE LAKE, MICHIGAN

FEBRUARY 29, 2008

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October 8, 2008

INDEPENDENT AUDITORS' REPORT

To the Board
Village of Fife Lake Downtown Development Authority
Grand Traverse County
Fife Lake, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Fife Lake Downtown Development Authority (A Component Unit of Village of Fife Lake) as of and for the year ended February 29, 2008, which collectively comprise the authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Village of Fife Lake Downtown Development Authority. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Fife Lake Downtown Development Authority as of February 29, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages ii through iv is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Fife Lake Downtown Development Authority's (A Component Unit of Village of Fife Lake) basic financial statements. The other supplementary information is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP

Baird, Cotter & Bishop, P.C.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake) VILLAGE OF FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS FEBRUARY 29, 2008

The Village of Fife Lake Downtown Development Authority located in Grand Traverse County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Village of Fife Lake Downtown Development Authority board's discussion and analysis of the financial results for the fiscal year ended February 29, 2008.

Overview of the Financial Statements

Village of Fife Lake Downtown Development Authority's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

A. Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represented those presented by business and industry. The entire Authority's assets and liabilities, both short and long-term, are reported.

The *Statement of Net Assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Activities* presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

B. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Village of Fife Lake Downtown Development Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)
VILLAGE OF FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
FEBRUARY 29, 2008

C. Summary of Net Assets

	<u>2008</u>
Assets	
Current Assets	\$ 129,506
Liabilities	
Current Liabilities	\$ 71,956
Long-Term Liabilities	160,000
Total Liabilities	231,956
Net Assets	
Unrestricted	(102,450)
Total Liabilities and Net Assets	\$ 129,506

D. Analysis of Financial Position

During the fiscal year ended February 29, 2008, the Authority's net assets increased by \$9,996.

E. Results of Operations

For the fiscal year ended February 29, the results of operations were:

	<u>2008</u>
General Revenues	
Taxes	\$ 31,312
Investment Earnings	2,123
Total Revenues	33,435
Expenses	23,439
Change in Net Assets	\$ 9,996

F. Analysis of Significant Revenues and Expenses

Significant revenues are discussed in the segments below:

1. Property Taxes

The Authority receives property taxes for operations.

For the year ended February 29, 2008, the Authority recognized \$31,312 of property tax revenue.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)
VILLAGE OF FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
FEBRUARY 29, 2008

G. Capital Assets and Long-Term Debt

1. Capital Assets

The Authority's does not have any capital assets as of February 29, 2008.

2. Long-Term Debt

As of February 29, 2008, the Authority had long-term debt outstanding of \$170,000.

Additional information on the Authority's long-term debt can be found in Note III D on page 12 of this report.

H. Factors Bearing on the Authority's Future

At the time that these financial statements were prepared and audited, the Authority was aware of the following item that could significantly affect its financial health in the future:

A significant portion of the Authority's funding comes from property taxes. Any impairment to this funding source would greatly impact the future of the Authority.

I. Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, please contact the Village of Fife Lake DDA Treasurer at P.O. Box 298, Fife Lake, Michigan 49663.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)

VILLAGE OF FIFE LAKE, MICHIGAN

STATEMENT OF NET ASSETS

FEBRUARY 29, 2008

ASSETS

CURRENT ASSETS

Cash	\$ 126,006
Taxes Receivable	<u>3,500</u>
TOTAL ASSETS	<u>\$ 129,506</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Due to Other Governments	\$ 61,956
Current Portion of Long-Term Debt	<u>10,000</u>
Total Current Liabilities	<u>71,956</u>

LONG-TERM LIABILITIES

General Obligation Bonds	170,000
Less: Current Portion	<u>(10,000)</u>
Total Long-Term Liabilities	<u>160,000</u>
TOTAL LIABILITIES	<u>231,956</u>

NET ASSETS

Unrestricted	<u>(102,450)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 129,506</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)

VILLAGE OF FIFE LAKE, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 29, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	GOVERNMENTAL ACTIVITIES
			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>			
Economic Development	\$ 11,574	\$ 0	\$ (11,574)
Recreation and Culture	1,100	0	(1,100)
Interest on Long-Term Debt	10,765	0	(10,765)
Total Governmental Activities	<u>\$ 23,439</u>	<u>\$ 0</u>	<u>(23,439)</u>
<u>GENERAL REVENUES</u>			
Taxes			31,312
Interest Earnings			2,123
Total General Revenues			<u>33,435</u>
Change in Net Assets			9,996
<u>NET ASSETS</u> – Beginning of Year			<u>(112,446)</u>
<u>NET ASSETS</u> – End of Year			<u>\$ (102,450)</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)

VILLAGE OF FIFE LAKE, MICHIGAN

BALANCE SHEET

FEBRUARY 29, 2008

ASSETS

Cash	\$ 126,006
Taxes Receivable	<u>3,500</u>
TOTAL ASSETS	<u>\$ 129,506</u>

LIABILITIES AND FUND BALANCE

Liabilities

Due to Other Governments	\$ 61,956
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Fund Balance

Unrestricted	<u>67,550</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 129,506</u>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)

VILLAGE OF FIFE LAKE, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS

FEBRUARY 29, 2008

Total Fund Balances for Governmental Funds	\$ 67,550
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
General Obligation Bonds Payable	<u>(170,000)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (102,450)</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)
VILLAGE OF FIFE LAKE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED FEBRUARY 29, 2008

REVENUES

Taxes	
Current Property Tax Levy	\$ 31,312
Interest and Rents	
Interest Earnings	<u>2,123</u>
Total Receipts	<u>33,435</u>

EXPENDITURES

Economic Development	
Contracted Services	10,955
Supplies	429
Advertising	30
Other	160
Recreation and Culture	
Historical Society	1,100
Debt Service	
Principal	10,000
Interest	<u>10,765</u>
Total Expenditures	<u>33,439</u>
Excess (Deficiency) of Revenues Over Expenditures	(4)

<u>FUND BALANCE</u> - Beginning of the Year	<u>67,554</u>
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<u>FUND BALANCE</u> - End of the Year	<u>\$ 67,550</u>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)

VILLAGE OF FIFE LAKE, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 29, 2008

Net Change in Fund Balance - Total Governmental Funds	\$	(4)
Amounts reported for governmental activities are different because:		
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).		<u>10,000</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>9,996</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)
VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Village of Fife Lake Downtown Development Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Village of Fife Lake was established through a Village Ordinance under Act No. 197 of the Public Acts of Michigan of 1975. The Village Board determined that it was necessary and in the best interest of the Village to halt property value deterioration and increase property tax valuation where possible in the DDA District, to eliminate the causes, and to promote economic growth.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Authority. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The Authority's net assets can be reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

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VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

Separate financial statements are provided for governmental funds. The Authority only has a governmental fund called the General Fund.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Authority are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Property taxes and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

General Fund is the primary operating fund of the Authority. It is used to account for all financial resources of the Authority.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)
VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

D. Assets, Liabilities, and Equity

1. Deposits and Investments

It is the policy of the Village of Fife Lake DDA to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Authority and comply with all state statutes governing the investment of public funds.

The Village of Fife Lake DDA's Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Village of Fife Lake DDA Board at the Board's organizational meeting after each regular election of officers.

2. Capital Assets

The Authority has not adopted a capitalization policy as of February 29, 2008 because they do not have any capital assets.

Village of Fife Lake Downtown Development Authority qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Authority will capitalize and depreciate infrastructure beginning March 1, 2003.

3 Long Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures

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(A Component Unit of Village of Fife Lake)
VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

4. Use of Estimates

This presentation of financial statements in conformity with the modified accrual basis of accounting requires the DDA to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Village of Fife Lake Downtown Development Authority has not adopted a budget for the current fiscal year.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Authority's deposits and investments are all on deposit with banks within the State of Michigan.

Investment rate risk. The Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investments and limiting the average maturity in accordance with the Authority's cash requirements.

Foreign currency risk. The Authority is not authorized to invest in investments, which have this type of risk.

Credit risk. The Authority will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Authority will do business in accordance with the Authority's investment policy.

Concentration of credit risk. The Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of February 29, 2008, none of the government's bank balance of \$126,006 was exposed to custodial credit risk because it was insured and collateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Authority or the Authority's agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Authority's name. At year end, the Authority held no investments.

B. Receivables

Receivables as of year end for the general fund are as follows:

Receivables	
Taxes	<u>\$ 3,500</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of that current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded at the end of the current fiscal year.

C. Capital Assets

The Authority has no capital assets as of February 29, 2008.

The Authority has no outstanding construction commitments as of February 29, 2008.

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake)
VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

D. Long-Term Debt

A summary of long-term debt and transactions related thereto is as follows for the year ended February 29, 2008:

		Beginning Balance	Additions	(Reductions)	Ending Balance	Amount Due Within One Year
2000	Downtown	<u>\$ 180,000</u>	<u>\$ 0</u>	<u>\$ 10,000</u>	<u>\$ 170,000</u>	<u>\$ 10,000</u>
	Development General Obligation Bonds, due through October 2016 in semi-annual installments of interest and annual principal payments varying from \$10,000 - \$25,000 bearing interest rates ranging from 5.80% to 5.85%.					

The annual requirements to amortize debt outstanding as of February 29, 2008, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2009	\$ 10,000	\$ 9,910	\$ 19,910
2010	10,000	9,330	19,330
2011	15,000	8,750	23,750
2012	15,000	7,880	22,880
2013	20,000	7,010	27,010
2014-2017	100,000	14,626	114,626
	<u>\$ 170,000</u>	<u>\$ 57,506</u>	<u>\$ 227,506</u>

IV. OTHER INFORMATION

A. Property Taxes

Each year, following the final equalization of property values in the District, the Village and Township Assessor prepare the tax increment assessment roll. The tax increment assessment roll shows the initial assessed value of each parcel of property within the District and the amount by which the current assessed value as finally equalized for all taxable property in the District exceeds the initial assessed value of the property (the "captured assessed value"). Copies of the annual tax increment assessment roll are transmitted by the Assessor to the Village Treasurer, the Township Treasurer, the County

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Village of Fife Lake) VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS FEBRUARY 29, 2008

Treasurer, the Authority and the Treasurer of each of the taxing jurisdictions within the District, together with a notice that it has been prepared in accordance with this Ordinance and the Plan. The Village Treasurer, the Township Treasurer and the County Treasurer, as ad valorem and specific taxes are collected on the property in the District, pay that proportion of the taxes, except for penalties and collection fees, that the captured assessed value bears to the initial assessed value to the Treasurer of the Authority for deposit in the Fund. The payments are made by the date or dates on which the Village Treasurer, the Township Treasurer and the County Treasurer are required to remit taxes to each of the taxing jurisdictions

B. Risk Management

The DDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The DDA, through the Village of Fife Lake, participates in a pool of municipalities within the State of Michigan for self-insuring casualty, crime, general liability, and errors and omissions insurance. The Village pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Village has not been informed of any special assessments being required.

The DDA also through Village of Fife Lake carries insurance for other risks of loss, including workers' compensation insurance and fidelity bonds.

C. Sale of Future Revenues

For several years, the Authority has sold its rights to delinquent real property tax revenues and related late payment penalties to Grand Traverse County treasurer. For the 2007 tax roll the Authority received a lump sum payment of \$4,590 for general operating tax revenues. This amount represents 100% of the present value of the delinquent real property tax revenues. In exchange for these payments, the county is allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the Authority will have to repay the county.

D. Deficit Net Assets

When the Authority makes major capital improvements (streetscape, lighting, etc.) it turns ownership of these improvements over to the Village of Fife Lake. The Village capitalizes these improvements and depreciates them. The Village is also responsible for routing maintenance and upkeep of the improvements. The result of transferring ownership of the improvements to the Village the Authority's financial statements reflect a deficit net assets. However, the Village of Fife Lake has pledged its full faith and credit for repayment of the bonds.

VILLAGE OF FIFE LAKE DOWNTOWN DEVELOPMENT AUTHORITY2000 DOWNTOWN DEVELOPMENT BONDSFEBRUARY 29, 2008

<u>TITLE OF ISSUE</u>	Village of Fife Lake 2000 Downtown Development Bonds
<u>PURPOSE</u>	Paying the cost of the downtown development area improvements
<u>DATE OF ISSUE</u>	May 24, 2000
<u>AMOUNT OF ISSUE</u>	\$ 200,000
<u>AMOUNT REDEEMED</u>	
Prior to Current Period	\$ 20,000
During Current Period	10,000 30,000
<u>BALANCE OUTSTANDING</u> - February 29, 2008	<u>\$ 170,000</u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
April 1, 2008			\$ 4,955	\$ 4,955
October 1, 2008	5.80 %	\$ 10,000	4,955	14,955
April 1, 2009			4,665	4,665
October 1, 2009	5.80	10,000	4,665	14,665
April 1, 2010			4,375	4,375
October 1, 2010	5.80	15,000	4,375	19,375
April 1, 2011			3,940	3,940
October 1, 2011	5.80	15,000	3,940	18,940
April 1, 2012			3,505	3,505
October 1, 2012	5.80	20,000	3,505	23,505
April 1, 2013			2,925	2,925
October 1, 2013	5.85	25,000	2,925	27,925
April 1, 2014			2,194	2,194
October 1, 2014	5.85	25,000	2,194	27,194
April 1, 2015			1,463	1,463
October 1, 2015	5.85	25,000	1,463	26,463
April 1, 2016			731	731
October 1, 2016	5.85	25,000	731	25,731
		<u>\$ 170,000</u>	<u>\$ 57,506</u>	<u>\$ 227,506</u>

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CERTIFIED PUBLIC ACCOUNTANTS

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October 8, 2008

To the Board
Village of Fife Lake Downtown Development Authority
Grand Traverse County
Fife Lake, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Village of Fife Lake Downtown Development Authority for the year ended February 29, 2008, and have issued our report thereon dated October 8, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 8, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Village of Fife Lake Downtown Development Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Fife Lake Downtown Development Authority are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted. We did propose several adjusting journal entries that were accepted and recorded by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 8, 2008.

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of the Village of Fife Lake Downtown Development Authority for the year ended February 29, 2008, we noted the following list of items which we feel deserve comment:

Budgeting

The Village of Fife Lake Downtown Development Authority did not adopt a budget for the year ended February 29, 2008.

Public Act 621 states that the budget document that the Village of Fife Lake Downtown Development Authority adopt include the following financial information:

- The actual results from the prior year
- An estimate of the current year results
- The proposed budget for the upcoming year
- Amounts for contingencies, if appropriate
- The amount of fund balance accumulated through the end of the current year, and the amount expected at the end of the upcoming year after applying the budgeted receipts and disbursements.

Capitalization Policy

The Village of Fife Lake Downtown Development Authority currently does not have a capitalization policy. The Downtown Development Authority needs to adopt a capitalization policy for use in determining the dollar threshold of what items to capitalize for GASB 34 purposes. We are available to assist you with adopting an appropriate capitalization policy if needed.

Disbursement Approval

The Authority Board should formally approve all disbursements prior to actual payment of the Authority's expenses. This approval by the Board should be documented in the Authority's board minutes.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

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October 8, 2008

To the Board
Village of Fife Lake Downtown Development Authority
Grand Traverse County
Fife Lake, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Village of Fife Lake Downtown Development Authority (a component unit of the Village of Fife Lake) as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Fife Lake Downtown Development Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Downtown Development Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency described in Number (1) above is a material weakness.

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BAIRD, COTTER AND BISHOP, P.C.

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